



MS ANNA WU
CHAIRMAN

Ever since the inception of the Mandatory Provident Fund (“MPF”) System, the Mandatory Provident Fund Schemes Authority has been continually reviewing and refining the System in the light of the evolving needs of our society. In recent years, the reviews and reforms have gathered ever greater momentum resulting in much discussion and important developments in the System. Many more fundamental reforms are on the drawing board or in the pipeline, all poised to bring about more substantial improvements.

CHAIRMAN'S STATEMENT

WHERE WE ARE

Let us first take stock of what MPF has achieved so far. At the end of March 2013, the MPF System embraces over 2.5 million members of the working population. Together with those under other retirement schemes, such as statutory pension schemes and MPF exempted occupational retirement schemes, 84% of the employed population has some form of retirement protection. It must always be remembered that this remains as one of the key objectives and achievements of the MPF System. Before the commencement of the MPF System in December 2000, only about 30% of the working population was protected, now the coverage of Hong Kong employees by an occupational retirement savings framework is amongst the highest in the world.

In recent years, a net amount of over \$30 billion was contributed to the MPF System annually. The net contribution amount¹ in 2012–13 was \$38.32 billion. As at 31 March 2013, the net asset value of the MPF System was \$455.33 billion. This represents a total net contribution amount of \$359.05 billion accumulated over the years plus \$96.28 billion in the form of investment returns. The overall annualized internal rate of return, after fees and charges, since inception of the MPF System was 4%, compared to the average annual inflation rate of 1.4% and the average one-month Hong Kong Dollar deposit rate of 0.8% per year over the same period. The latest available average Fund Expense Ratio ("FER") of MPF funds² is 1.72%, representing a drop of 17% from the ratio of 2.06% when FER was first published³.

MAJOR DEVELOPMENTS IN THE YEAR

Refinements and Reforms

After thorough preparation, the Employee Choice Arrangement ("ECA"), commonly known as "MPF semi-portability", came into effect in November 2012. This has brought about a change to the employer-based MPF System by giving employees a right to transfer the accumulated MPF benefits attributed to their own mandatory contributions to a trustee and scheme of their own choice. The implementation of a statutory regime for the regulation of MPF intermediaries is another major development, offering better protection to individuals who have become selling targets when choice is opened up to them.

As to other refinement initiatives, after the conclusion of the consultation on proposals relating to the regulation of withdrawal of MPF benefits, we have been working out the relevant legislative proposals with the Government. A review of the statutory adjustment mechanism for the minimum and maximum relevant income levels for MPF contribution purposes has commenced. Meanwhile, the need to adjust the relevant income levels before the adoption of a revised adjustment mechanism was reviewed, having regard to the results of a previous review and new developments in the Statutory Minimum Wage rate.

During the year, a Consultancy Study on Trustees' Administration Costs ("Cost Study") concluded and generated significant input to a series of short-term and long-term measures to achieve simplicity and cost reduction, and gave us insight on how to further improve the MPF System. The improvement measures would require the concerted efforts of four parties. First, trustees and sponsors need to provide low-fee funds for each scheme. Second, scheme members and employers need to change their way of managing their MPF such as consolidating their accounts and using electronic or online services. Third, the Authority, together with the trustees, should continue to drive for improvements in scheme operation, such as adopting electronic platforms and consolidating less efficient schemes or funds. Fourth, we need to work with the Government to develop a better understanding of the intended role of the MPF System, and to press ahead with the fundamental reforms that would improve the System.

- 1 Net contribution amount refers to the net contribution inflow after deducting the amount of benefits paid during the period.
- 2 Derived from FERs of individual constituent funds of MPF schemes with financial year-end dates falling within the period from 1 July 2011 to 30 June 2012.
- 3 The average FER of individual constituent funds was first published in 2007 for MPF schemes with financial year-end dates falling within the period from 1 October 2005 to 30 September 2006.

CHAIRMAN'S STATEMENT (CONTINUED)

Education and Member Protection

While working with the industry and other stakeholders on various refinement measures, the Authority continues to educate the public about the MPF System and MPF investment, providing scheme members with necessary information to facilitate their MPF decisions, and recovering default MPF contributions on behalf of employees. Education requires long-term efforts. It is important that we educate the public from a young age, and make as many workers as possible understand the principles behind investing for retirement so that they can make appropriate MPF choices for their own future. But we also appreciate that we need to have mechanisms in place to protect and assist those who cannot, or do not want to, make investment decisions.

The above are just highlights of this year's work. I will leave the readers to read up the details of these and other activities in the rest of this report. Meanwhile, let me share my thoughts here on the objectives of reforming the MPF System, which should guide the Authority's work in the years to come.

REFORM OBJECTIVES

The MPF System is set up as the second pillar of retirement protection according to the World Bank's three-pillar approach⁴. In order for the MPF System to better fulfil its role as a pillar of retirement protection, measures or reforms should be considered in that context such that the MPF System would:

- have a clearly defined role in retirement protection;
- have a stronger member advocate function;
- be member-driven;
- be reasonably simple to users; and
- be maintained at a reasonable cost to members.

Clearly Define the Role of MPF System

The three pillars should work together to provide sufficient retirement protection for any individual in the community. Criticisms that the MPF System cannot adequately provide for individual's retirement needs are not infrequent. Such criticisms arise from an inadequate understanding of the intended role and scope of the MPF System, which, being only one of the three pillars, is not intended to cover all retirement needs. To address such mismatch of expectations, there is the need to further explain to the public the role of the MPF System in the context of an overall retirement policy. The Authority will work together with the Government in this regard.

Strengthen Member Advocate Function

The MPF System is a privately managed social programme. There is inherent tension when a social programme is to be run by commercial operators, whose primary focus is the generation of profit. Under such settings, it is particularly important to further refine and reform the System to ensure that product development and pricing are done in a manner that enhances members' interests. Development of the System should ensure that members' interests are kept as the core objective and that some relevant party maintains a members' advocate role.

Put Members in the Driver's Seat

Employers are key decision-makers in the choice of MPF products and service providers. It is natural that market players will seek to meet the needs of employers to grow their customer base. A key purpose of ECA is to give some control back to employees and change the market focus by allowing employees to choose their MPF schemes for the portion of their benefits attributed to their own mandatory contributions. In the longer term, full portability should be the ultimate goal, giving full control to employees over all of their benefits. And as the MPF System becomes more member-driven, information and tools to raise the literacy of scheme members in respect of investing for retirement and to help them make informed decisions are indispensable.

⁴ The first pillar is a publicly-managed, tax-financed social safety net. The second pillar is a mandatory, employment-based, privately-managed, fully funded scheme with contributions made into individual accounts of contributors. The third pillar comprises voluntary personal savings and insurance.

Make System Simple to Use

There are some 40 schemes and over 400 funds in the MPF System. Choosing a fund among those on offer is not easy for the average scheme member. There is the need to make this decision-making process easier, especially for those who do not have sufficient knowledge to make investment decisions, whether through better intermediation services in a regulated environment or development of products that meet such ends.

Maintain System at Reasonable Cost

The fees and charges of MPF have been dropping gradually, but the pace of reduction is not as fast as we have wished. The offer of more low-fee fund choices and the control of fees charged to funds are possible solutions.

The cost of administering MPF schemes and funds is a major input into fees charged in the MPF System. Introducing further measures to eliminate unnecessary procedures and enhance efficiency of the MPF System, thereby reducing scheme administration costs, would be the right direction to go. The adoption of electronic platforms among trustees for various processes and the wider use of online services by employers would be equally important.

REFORM INITIATIVES

The Authority has apprised the Government of the reform objectives and put forward fundamental reform proposals for its consideration. The Government, in the 2013 Policy Address and 2013–14 Budget, has affirmed its commitment to working with the Authority on a number of policy initiatives to improve various areas of the MPF System. The reform measures and initiatives demonstrate the determination of the Government and the Authority to make the MPF System better for the benefits of all scheme members. We welcome views from all stakeholders in this regard, and look to the Government for policy directions.

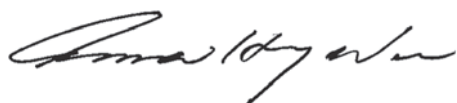
VOTE OF THANKS

The Management Board and its supporting committees and working groups have put in another year of hard work and contributed conscientiously to the development of reform options and initiatives and the in-depth study of various issues. I must thank my fellow directors for their commitment and tremendous efforts. I am also grateful to the MPF Schemes Advisory Committee (“MPFSAC”) and the Industry Schemes Committee (“ISC”) for their sterling advice on the operation of the MPF System and Industry Schemes respectively.

My special thanks go to the members who retired this year. Mr Rimsy Yuen, non-executive director, and Mr David Sun, Chairman of MPFSAC, resigned in June 2012 to take up significant roles in the Judiciary and Administration of the HKSAR Government respectively. Mr Wong Ting-kwong, having served as Chairman of ISC for six years, continues his commitment to the MPF cause by chairing the MPFSAC. Ms Li Fung-ying, who completed six years of service as a non-executive director in March 2013, has taken up the chair of ISC. To them, and to members of MPFSAC and ISC who retired in the year, I would like to convey my most sincere gratitude for their valuable contributions and staunch support over the years.

The staff of the Authority continued to demonstrate their professionalism and dedication under the capable leadership of Mrs Diana Chan, the Managing Director. I am most grateful to them for their devotion and excellent teamwork.

Finally, I wish to record my warm appreciation for the enormous efforts put in by the industry in complementing the Authority’s initiatives. Their valuable input and relentless support have been instrumental to the process of improving and refining the MPF System. We are also thankful to the Government for its guidance and support, which are indispensable. We will continue to work closely with them in bringing about more groundbreaking reforms going forward.



Anna Wu Hung-yuk
Chairman